



Effect of Framing- A Cognitive Bias

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Background &Explanation

Traditional or Classical Finance suggests that people make decisions considering various factors depending on context in which he is taking the decision, Is he taking decision based on intuition or having sound knowledge, does he have any other options to consider etc. These types of factors influence any decision makers behavior. The question I framed is based on following behavioral concepts

- 1)Framing
- 2)Choice Overload

Framing states that investors do not behave as predicted and the behavior of any investor depends on the frame of reference or context in which decision is made. Behavioral finance impacts rational decision making of an investor.

"Choice overload" also known as "Over choices". It is the phenomenon of choice overload and occurs as a result of too many choices being available to decision makers. Choice overload may refer to either choice attributes or alternatives.

Methodology

The following Question was framed , and a survey was taken among 20 graduate students of Finance department, University of Bridgeport.

- 1)Would you recommend a team of doctors who performed 1000 surgeries out of which performed 950 surgeries successfully
Option A-Yes
Option B-No
- 2)Would you recommend a team of Doctors who performed 1000 surgeries and failed in 50 surgeries?
Option A-Yes
Option B-No

Results

| Difference | 15 % |
|--------------------|-----------------------|
| 95% CI | -15.8494% to 41.8918% |
| Chi-squared | 0.820 |
| DF | 1 |
| Significance level | P = 0.3651 |

- Participants had differences in their opinions in making decision according to the question framed. There was mix of recommending and not recommending doctor with 50%/50% in Question 1 but most of the participants were not recommending the doctor when they see failure of 50 Surgeries.
- Hence according to the above tests P value is non significant and null hypothesis is accepted.

